85- 1154

House of Representatives
Committee on Post Office
and Civil Service
Washington, D.C. 20515
TELEPHONE (202) 225-4054

March 19, 1985

The Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Casey:

The Committee on Post Office and Civil Service is continuing its hearings on the development of a supplemental retirement system for those Federal employees who are covered by social security. Hearings on April 2, 3, and 23 will focus on specific design issues (see enclosure). A hearing planned for April 25 will consider how the supplemental plan should treat unique employment categories such as law enforcement officers, fire fighters, air traffic controllers, Central Intelligence Agency officers, and the Foreign Service. The Agency's views at the April 25 hearing would be helpful.

Under existing law, employees in these unique categories generally may retire without penalty at earlier ages than other civil service employees. Usually, these employees may retire with unreduced benefits at age 50 if they have served 20 years. Other civil service employees may not retire without penalty prior to age 55, and then only if they have served 30 years. Employees in these unique categories are also generally subject to mandatory retirement provisions.

In designing the supplemental system, the Committee must consider whether special treatment for these unique categories should be continued and, if it should, in what form. Should the current age and service requirements be continued? Is there still a need for mandatory retirement provisions? If early retirement is continued, should we somehow compensate early retirees for the fact that social security benefits will not begin until age 62? These are questions which must be addressed.

Legislative jurisdiction over the Central Intelligence Agency Retirement and Disability System (CIARDS) resides in the Select Committee on Intelligence. Regardless, however, of whether changes in the CIARDS are specifically legislated, changes in this System may be required administratively as a result of section 292 of the Central Intelligence Agency Retirement Act which provides for compatibility between the civil service and Foreign Service retirement systems. Thus legislative changes limited solely to the civil service system may have ramifications for the Foreign Service, and it is important that we have the Agency's views.

The hearing will begin at 10 a.m. and will be held in room 311 of the Cannon House Office Building. One hundred copies of your prepared testimony should be delivered to room 309 Cannon no later than Friday, April 19. Questions may be directed to Pierce Myers of the Committee staff at 225-4054.

With kind regards,

Sincerely,

William D. Ford

WILLIAM D. FORD
Chairman

Enclosures

cc: The Honorable Lee H. Hamilton
Chairman
Select Committee on Intelligence

The Honorable Bob Stump
Ranking Minority Member
Select Committee on Intelligence

WDF:pmp

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March 8, 1985

Issues to be Considered in April 1985 Retirement Hearings

Committee on Post Office and Civil Service

Cost

The Congressional Research Service (CRS) estimates the employer cost of the Civil Service Retirement System (CSRS) is 24.7 percent of pay, and the Government's cost for Federal employees covered by social security is 6.1 percent of pay. (See, enclosed CRS report, pp. 73-75, 285-297). What should the normal cost of the new supplemental system be? (Note: normal cost estimates are extremely sensitive to changes in economic and demographic assumptions, and different actuaries will develop different estimates of normal cost. During its deliberations, the Committee intends to use the computer model developed by CRS to measure and compare the normal cost of various options under consideration. Use of the CRS computer model is the only method available by which timely estimates of normal cost and replacement rates can be produced to permit the Committee to determine the relative cost and generosity of various retirement proposals.)

Social security "tilt"

"The current CSRS replaces the same percentage of preretirement dollars for workers at all income levels who retire with the same number of years of service. Social security replaces a higher proportion of earnings for persons with lower career average wages. This tilt must be taken into consideration when designing a Federal pension for workers who will be covered by social security." (CRS report, p. 123). How much, if any, of the social security tilt should be offset by the new supplemental plan? (See, CSR report, pp. 20-23, 111-117, 123-133).

Employee contributions

Under the CSRS, employees pay 7 percent of pay into the retirement fund. Under social security, employees now pay a 5.7 percent contribution. The social security contribution will increase to 6.2 percent by 1990. Under both systems, employees pay an additional 1.35 percent to medicare. The social security and medicare contributions are based on earnings only up to a certain level -- now $39,600, estimated to increase to $50,700 by 1990. The CSRS contributions, on the other hand, are based on entire salary. Should employees under the new supplemental plan be required to pay retirement contributions, and, if so, what level of contribution should be required?

Funding and financing

Under the CSRS, employees contribute 7 percent of pay to the fund, and this contribution is matched by employing agencies. The system is further funded through payments from off-budget agencies, such as the United States Postal Service, and interest earned. A substantial portion of the funding, however, comes directly from the United States Treasury. (See, CRS report, pp. 269-273; see also "Civil Service Retirement: Financing and Costs", Congressional Budget Office, May 1981). Should the new supplemental system be fully funded? If it is fully funded, should the funding come from agency appropriations or from the Treasury?

Vesting

"It has been argued that different work force management goals are served by vesting periods of different lengths, with long vesting periods tending to discourage turnover (and reduce employer costs) and to provide an incentive for employees to remain with one employer for long periods of time. An example of a long vesting requirement is the military, which requires 20 years of service before any retirement benefits are payable. However, employees may then retire and draw an immediate pension. Most private employers adopted the ERISA 10-year vesting schedule. In the Federal civil service, employees are vested after five years." (CRS report, p. 251). What should be the vesting requirement under the new supplemental plan?

Unique employment categories

Existing law contains retirement provisions for certain groups which are more advantageous than those normally applicable. Such groups include law enforcement officers, fire fighters, air traffic controllers, and the foreign service. How should employees in these unique categories be treated under the new supplemental plan?

Enclosure